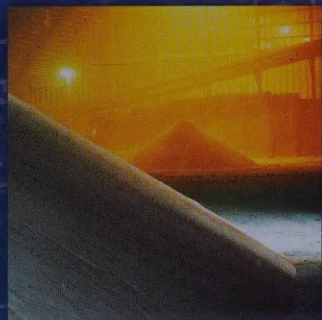
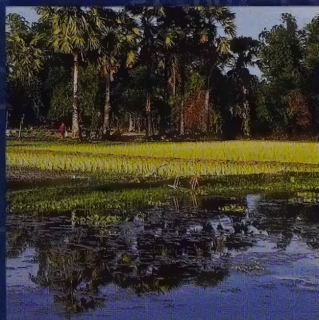
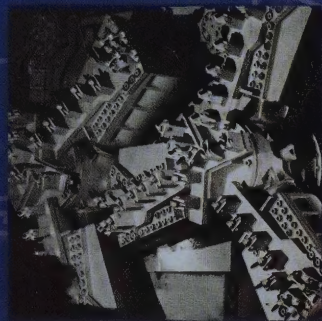


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Asia Pacific Resources Ltd.



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On the occasion of the visit to Thailand of the Team Canada 1997 Mission, the Government of Canada commends Asia Pacific Resources Limited on its commitment to develop a potash mine in cooperation with The Metro Group in the province of Udon Thani.

À l'occasion de la visite en Thaïlande de la mission Équipe Canada 1997, le gouvernement du Canada félicite Asia Pacific Resources Limited pour son engagement en vue de développer une mine de potasse en collaboration avec le Metro Group dans la province de l'Udon Thani.

Jean Chrétien

The Right Honourable Jean Chrétien
Prime Minister
Government of Canada

Le très honorable Jean Chrétien
Premier ministre
Gouvernement du Canada

During the past year, your company has continued to advance its major potash development in north-east Thailand. The continuing progress from the excitement of the initial discovery through extensive expanding exploration programs, completion of preliminary feasibility studies and, shortly, completion of the Bankable Feasibility Study for Asia Pacific's initial mine, has been a challenging and satisfactory progression for all involved with the project.

To discover two potash fields, with total in-situ resources in excess of one billion tonnes of one of the highest grade potash ores in the world is a stunning achievement for a junior company, particularly

at a time when the performance ability and integrity of Canada's junior mining sector has been under much scrutiny. The prospect of constructing additional potash mines to meet the ever increasing Asian demand for potash is also an exciting future challenge. The resources identified to date could, possibly, support an annual production rate of five to six million tonnes of potassium chloride, making Thailand one of the world's foremost potash producers.

Due to the strategic location of the project, in close proximity to major potash consumers, the economics associated with the development are exceptionally

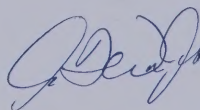
attractive. Transportation and distribution costs associated with commodities such as potash, play a major role in project economics, and our project enjoys significant advantages in this respect.

The projections for demand growth in the China / southeast Asia region are most encouraging and the preliminary discussions held with major purchasers and distributors in China, and elsewhere, convince us of our ability to market all projected production from the development without any negative impact upon pricing.

Some may doubt the ability of junior companies to complete major mining projects, however, we intend to prove that a company of our size can, and will, develop a world class mining operation. We will focus on this single objective and become Asia's first potash producer serving Asian markets.

The support of the shareholders has been a constant source of inspiration to your Board of Directors who are totally committed to the success of Asia Pacific Resources Ltd. On behalf of your Directors, I thank all shareholders for their support, patience and belief in the company.

In our next Annual Report, your Board of Directors anticipates reporting the start of construction for Asia Pacific's initial mining development in north-east Thailand. We look to your continued support to maximize the interests of Asia Pacific and its fellow shareholders, Metro Resources Ltd. and the Government of the Kingdom of Thailand in taking Thailand to the forefront of the world's potash producers.



Dr. Gerald D. Wright, P.Eng.
Executive Chairman



During 1996, an Interim Feasibility Study on the Somboon field was completed which concluded that the development of a two million tonne per annum potash mine appeared both technically and economically feasible.


Encouraged by these results the company decided to continue and to accelerate the pace of project development by focusing on the following three strategic objectives:

- ☐ Completing a Bankable Feasibility Study for the Somboon field.
- ☐ Completing an evaluation of the Udon field resource.
- ☐ Continuing the exploration of the remaining Concession area.

The company has a competent management team dedicated to achieving these objectives. Leading technical consultants including Golder Associates Ltd., H.A. Simons Ltd. and Sandwell Ltd. have been appointed to carry out the major sections of the Bankable Feasibility Study.

During the past year \$6.8 million was spent on the project, of which Asia Pacific contributed \$4.7 million. To date, a total of \$17.2 million has been spent, of which Asia Pacific has contributed \$11.9 million. The company continues to be well funded and has sufficient funds to meet all planned exploration and development programs. Development efforts continue to receive the strong, positive support of the Government of the Kingdom of Thailand for which the company is most appreciative.

On behalf of the Board of Directors, I wish to thank all those employees, consultants and associates who have and continue to contribute to the company's success.



Mr. R.G. Connochie
President and CEO



Introduction

Asia Pacific Potash Corporation (APPC), a Thai-registered company whose shareholders are Asia Pacific Resources Ltd., Metro Resources Co. Ltd. (MRL) and the Government of the Kingdom of Thailand, holds the Udon Thani Potash Concession in northeast Thailand. The Concession, which now totals 1,730 km², confers on APPC the exclusive rights to explore for, produce and market potash minerals from this area. It is located around the city of Udon Thani some 500 km from Bangkok.

Asia Pacific Resources Ltd. holds a 62.5% equity interest in APPC and acts as Project Operator. MRL holds a 27.5% interest, while the Government of the Kingdom of Thailand holds the balance of 10%. MRL is a Yukon, Canada registered company and a subsidiary of the Metro Group which is based in Bangkok.

Since June 1993, a significant exploration and development program has been carried out at the Concession area and APPC has successfully discovered two large potash deposits. These are now known as the Somboon and Udon fields, and have been delineated by some 500 km of 2-D seismic surveys and 160 diamond drill holes. Gross tonnage for the deposits are in the order of 300 million tonnes and 1,000 million tonnes respectively.

An Interim Feasibility Study has been completed for an initial two million tonne per annum (KCl) mine at the Somboon field with most encouraging results demonstrating the likely technical and economic feasibility of such a mine. APPC is now undertaking a Bankable Feasibility Study to confirm these preliminary conclusions and fully evaluate the economic parameters of the mine. It is expected that this study will be successfully completed by September 1997, following which APPC will raise the necessary debt and equity financing for the mine.



The Somboon mine is expected to be the initial mine of a series of mines to be developed at the two potash fields. As regional market demand continues to rapidly increase, it is expected that additional mines will be developed to optimise output from the existing deposits. A total annual production of, perhaps, five to six million tonnes of potash may be developed eventually, making Thailand the world's third largest potash producer.

Potash (or potassium chloride) is a potassium salt which is mainly used as a manufactured fertilizer, often combined with other nutrients such as nitrogen and phosphates.

Project Development

Within the Udon Thani Concession two distinct bodies of potash resources have been identified thus far. The Somboon field, located about 15 km south of the city of Udon Thani, was the first to be discovered. It was the subject of an Interim Feasibility Study completed in August 1996, which concluded that development on a scale of two million product tonnes per annum, appeared both technically and economically feasible.

The second resource area, now known as the Udon field, lies between the Somboon field and the city. Preliminary exploration work also completed during the first half of calendar 1996 indicated the presence of a large deposit of high-grade sylvinite ore, the magnitude of which is now being confirmed. In addition, a considerable area of the Concession remains to be explored.

The company believes that the potential exists to develop more than one mine within the Concession boundary. Competitive analysis based on the





APPC management review the concession map showing the 160 diamond drill holes and over 500 km of 2-D seismic survey lines.

project's strategic location in the heart of one of the world's largest and fastest growing potash consuming areas supports this conclusion.

Thus the company's development strategy is based on three major activities:

- ☐ Completing a Bankable Feasibility Study for the Somboon field and construction of the initial mine.
- ☐ Completing an evaluation of the Udon field resource.
- ☐ Continuing the exploration of the remaining Concession area.

Progress on each of these initiatives is presented in the following sections.

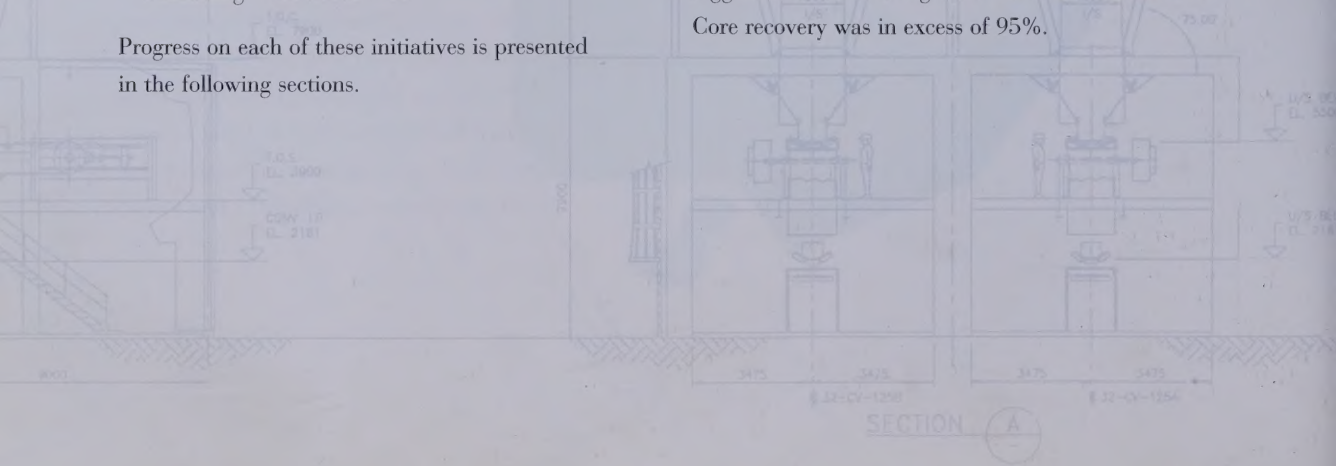
Somboon Field Bankable Feasibility Study

Following completion of the Preliminary Feasibility Study, the company commenced a more detailed Bankable Feasibility Study focussing on the following issues:

- ☐ The Resource
- ☐ Mining
- ☐ Processing Facilities
- ☐ Transportation

The success of any mining project ultimately depends on the quality of the ore reserve. To ensure that the company has the best possible knowledge of the ore body, a complete reevaluation was undertaken beginning with a review of the regional and local geology.

The Somboon field is covered by more than 200 km of two-dimensional seismic surveys which have been used to develop a geological model. This process is well proven and used throughout the industry. During the year an additional five holes were drilled, bringing the total to 60 of which 49 holes intersected potash. Each of these holes was logged and cored through the horizons of interest. Core recovery was in excess of 95%.



Somboon Field Drilling Data		
	60 holes drilled	49 holes intersected potash
Core recovery was in excess of 95%		
	297 million tonnes at an average grade of 20.7% K ₂ O	
Average magnesium content is 0.13% Mg		Average total insoluble content is less than 1.5%

Independent specialized consultants were used to recommend the best possible techniques and methodologies for sampling and estimating the Somboon reserve and to carry out the actual work. Assays were performed, in Canada, at Pioneer Laboratories. Check assays, using samples of various sizes, were also made on the core by the Saskatchewan Research Council, and by Lakefield Research of Canada. Results from the various testing facilities are comparable and the company is confident of their accuracy.

Continuity of the ore between drill holes was confirmed by analyzing seismic surveys, comparison of gamma ray logs, and logging the lithology and mineralization of the recovered drill core.

All of the above data was incorporated into a computer-based model to generate a geological resource which has been determined to be 297 million tonnes at an average grade of 20.7% K₂O. The average magnesium content is 0.13% Mg and the average total insoluble content is less than 1.5%; both indicative of a clean, easily processable ore. The geological resource was then reduced to a mineable resource by removing all areas of geological uncertainty which might present

difficulties in mining operations. All areas which did not meet the cut-off criteria of a minimum of 15% K₂O, a minimum vertical thickness of 1.5 metres, and a minimum over-lying salt thickness of 2.15 metres were also removed. The final step in



The Somboon field is covered by more than 200 km of 2-D seismic surveys.

this process is to apply practical mining constraints to the mineable resource to develop a recoverable reserve which is estimated at about 120 million tonnes at over 23% K_2O . This is sufficient for 20 years at the design production rate of two million tonnes of KCl product per annum, and there is the prospect of additional mineable ore reserves.

Golder Associates conducted detailed water pumping tests through the completion of 15 bore holes of varying depths and have concluded that, except at or near surface, the formations overlying the potash are impervious aquacludes incapable of holding or transmitting ground water. This is very advantageous as the ingress of high pressure water can cause many problems at potash mines, as has been experienced at some deep Canadian mines.

Process test work conducted at Lakefield Research has confirmed that Somboon ore may be processed in a conventional floatation circuit. Overall mill recovery is expected to be 89%. Product quality is expected to equal the best in the industry. The mill flowsheet also incorporates an evaporator and

crystallizer circuit which will allow the production of a high-grade white potash and approximately 180,000 tonnes per annum of industrial-grade salt as a by-product.

The domestic transportation segment of the Bankable Feasibility Study has been completed. The consultants have confirmed the adequacy of the railway to the ports on the Gulf of Thailand and have identified three potential port sites.



Field staff and contractors reviewing drilling progress.

Udon Field Drilling Data			
	65 holes were drilled	38 holes intercepted potash	
	Sylvinite mineralization is thicker than at Somboon		
	14 boreholes encountered sylvinite over 15 metres thick		
	4 holes contain sylvinite in excess of 10 metres thick		

Negotiations are now underway with the companies which control these sites and with the railway to determine the costs of various options. In addition, the Provincial Electricity Authority has confirmed the availability of power from a substation adjacent to the proposed minesite. An application for water supply from a nearby reservoir has been submitted and is expected to be approved during 1997.

Environmental studies are continuing for the purposes of developing baseline data and for supporting the Environmental Impact Statement.



The ability to move product by direct rail service will significantly shorten delivery times and decrease distribution costs.

This is a necessary and normal part of the permitting process. No unusual issues have been identified and none are expected. The application for Mining Licenses will be filed shortly after completion of the Bankable Feasibility Study.

Udon Reserve Evaluation

A reconnaissance seismic and drilling program was initiated towards the end of 1995, which led to the discovery of a second significant potash field which is now called the Udon field. Exploration in the Concession continued during late 1996 and by May 1997, a total of 65 holes were completed. Of these, 38 holes intercepted potash. This field lies some 5 km north of the Somboon field towards the city of Udon Thani. Drilling has shown that sylvinite mineralization is thicker than at Somboon and in fact 14 boreholes encountered sylvinite over 15 metres thick and an additional 4 holes contain



sylvinite in excess of 10 metres thick. Several holes contained more than two sylvinite horizons of mineable thickness separated by sufficient interburden to facilitate the separate mining of each horizon. Modelling of these results is in progress and work is proceeding to quantify the gross in-situ resource. This will be followed by studies to determine the mining potential of this deposit. Preliminary estimates are expected by year-end.

Further studies will include the evaluation of this resource and development of preliminary estimates of the mineable reserves and a feasibility study.

Ongoing Exploration

Following a program of reflective seismic surveys and limited regional drilling in December 1996, the company, in accordance with the terms of the Concession Agreement, relinquished approximately 600 km² of its previously held 2,330 km².

The lands relinquished were confined to a strip along the western and southern margins of the

Concession. Seismic clearly illustrated that subsurface structures reflected basin rim uplift effects.

The completion of five test holes in the northwest quadrant proved that potash of an economic nature does not exist northwest of the city of Udon Thani. Consequently, a portion of this area was also relinquished. During the 1997/98 drilling program the company expects to continue its program of exploratory drilling and in 1998, again in accordance with the Concession Agreement, reduce the size of the Concession to approximately 875 km².

Industry Outlook

The long-term outlook for potash producers remains strong. On a world-wide basis industry experts project a 3% per annum growth in consumption for the next decade. Increases in total capacity of existing producers will likely be offset by plant closures resulting from declining ore reserves and other economic and technical problems. Supply and demand, therefore, is likely to come into balance around the year 2000.



The potential for new green fields production is rather limited. A number of possibilities have been evaluated and rejected for various economic and technical reasons. It is believed that the Udon Thani project offers by far the best potential for major new potash supply.

The shift in world-wide agriculture to the developing countries, particularly those in Asia, continues. Asian consumption of potash in 1996 equaled about 30% of the world total. Each of the major Asian countries continue to face the same problems: rising populations, decreasing productive available land and the desire for improved diets. There is wide spread recognition within the agricultural industries of these countries that increased use of fertilizers and more balanced application of nutrients must be achieved as quickly as is practical. Equally important, the growing national economies will provide the financial resources to import the required agricultural raw materials. Projections from the Asian markets in which Asia Pacific will participate, suggest annual growth rates in potash consumption of up to 6%.

During the year the company held preliminary discussions with a number of major potential customers. The purpose was to explain our plans

for developing the Udon Thani Concession and how best these plans could be integrated with the potash requirements of these companies. Without exception the company was well received and it is very clear that a number of customers will welcome, and may be prepared to assist in, the development of an Asian potash producer.

Recent figures published by the Chinese Chemical Planning Institute indicated potash imports of some five million tonnes in 1995, with growth at an average rate of 13% during the 1990/95 period. The recently announced five year plan indicates that while China will be self-sufficient in nitrogen fertilizers and will produce about 75% of its phosphate demand, it will continue to be dependent on imports of potash fertilizer (up to 90% of demand) to meet its growing requirements which are estimated to reach more than 7 million tonnes within the five year period, ending in the year 2000.



Continued Development of Infrastructure

Excellent existing infrastructure, including rail, roads, water and power is more than adequate to meet project requirements. The existence of a large labour force in the immediate area is also a decided advantage.

It is expected that the continued development of regional infrastructure will, in the longer term, further enhance the company's competitive position. Specific examples include the following.

As a result of an agreement signed between the Government of Laos and a private Thai group, construction of the first rail link between Thailand and the Laotian capital of Vientiane is expected to begin in the near future. Approval has been given for the second phase of this project which will extend the rail network to several points within Laos and to the borders of Vietnam and China. The ability to move product by direct rail service to customers in Laos, Vietnam and Southern China will significantly shorten delivery times and decrease distribution costs.

Also of interest is a proposed project to build a gas pipeline from the Gulf to within 50 km of the minesite. While adequate electrical power at competitive rates has been assured, the availability of natural gas opens the possibility of co-generation and savings in operating costs.

Looking Ahead

The Udon Thani potash Concession is without a doubt the most extensively explored and modelled potash deposit in the world. The eagerly awaited completion of the Somboon Bankable Feasibility Study is expected to permit APPC to make the production decision, raise debt and equity financing and proceed with construction of Asia's first commercial potash mine.

Due to its strategic location, shallow depth and high grade sylvinite ore, the project will enjoy excellent economics compared to the traditional suppliers to the region's potash markets. Asia Pacific looks forward to the commissioning of the initial Somboon mine at the start of the next decade, and to the subsequent development of the Udon potash field.

APPC is poised to become a significant force in the Asian potash markets. Asia Pacific Resources Ltd. is proud to be at the forefront of the creation of an exciting new industry for the Kingdom of Thailand. The company is committed to the development of long term trading relationships with the region's major potash consumers to permit the most timely development of the Udon Thani potash Concession to its full potential.

AUDITORS' REPORT

ASIA PACIFIC RESOURCES LTD. (A development stage enterprise)

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To the Directors of
Asia Pacific Resources Ltd.

We have audited the consolidated balance sheets of Asia Pacific Resources Ltd. (a development stage enterprise) as at February 28, 1997 and February 29, 1996 and the consolidated statements of loss and deficit and changes in financial position for each of the years ended February 28, 1997, February 29, 1996 and February 28, 1995 and the period from inception on January 26, 1986 to February 28, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 1997 and February 29, 1996 and the results of its operations and the changes in its financial position for each of the years ended February 28, 1997, February 29, 1996 and February 28, 1995 and the period from inception to February 28, 1997 in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche

Chartered Accountants
Vancouver, British Columbia
May 23, 1997

CONSOLIDATED BALANCE SHEETS

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ASIA PACIFIC RESOURCES LTD. (A development stage enterprise)

February 28, 1997 and February 28, 1996
(expressed in Canadian dollars)

	1997	1996 (restated) (Note 5)
ASSETS		
CURRENT		
Cash	\$ 26,818,076	\$ 23,146,812
Accounts receivable	923,173	134,944
Income taxes recoverable	—	379,840
Prepaid expenses	82,443	19,933
Due from affiliated companies	494,008	34,420
Other current assets	20,366	—
	<u>28,338,066</u>	<u>23,175,949</u>
CAPITAL ASSETS	(Note 3) 302,531	38,157
INVESTMENT IN POTASH CONCESSION	(Note 4) 11,911,416	7,164,732
	<u>\$ 40,552,013</u>	<u>\$ 30,918,838</u>
LIABILITIES		
CURRENT		
Account payable and accrued charges	\$ 1,154,024	\$ 427,588
Other current liabilities	23,507	—
	<u>1,177,531</u>	<u>427,588</u>
SHAREHOLDERS EQUITY		
Share capital	(Note 6) 52,491,776	42,468,346
Deficit	(13,117,294)	(11,977,096)
	<u>39,374,482</u>	<u>30,491,250</u>
	<u>\$ 40,552,013</u>	<u>\$ 30,918,838</u>

APPROVED BY THE BOARD:



John M. Darch
Director



Gerald D. Wright
Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

ASIA PACIFIC RESOURCES LTD. (A development stage enterprise)

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(expressed in Canadian dollars)

	Cumulative from inception to February 28 1997	Year ended February 28 1997	Year ended February 29 1996	Year ended February 28 1995
INTEREST INCOME	\$ 2,080,963	\$ 1,079,703	\$ 797,420	\$ 116,668
EXPENSES				
Accounting and legal	370,814	56,245	110,880	38,661
Amortization	93,249	42,755	8,548	7,088
Consulting	658,214	166,840	283,774	130,891
Financing costs	223,305	—	223,305	—
Interest & bank charges	145,248	1,272	9,160	54,176
Office & miscellaneous	992,098	423,214	175,010	76,870
Promotion & travel	947,731	310,717	235,516	163,466
Rent	236,399	79,683	30,886	23,373
Salaries	2,086,605	701,312	356,723	263,882
Transfer fee & filing cost	337,233	119,413	102,924	47,113
	6,090,896	1,901,451	1,536,726	808,520
LOSS BEFORE THE UNDERNOTED	(4,009,933)	(821,748)	(739,306)	(691,852)
(LOSS) GAIN ON SALE OF INVESTMENTS	(1,806,532)	—	(2,045,402)	41,048
WRITE-DOWN OF INVESTMENTS	(4,380,918)	—	—	—
FOREIGN EXCHANGE LOSS	(228,713)	(228,713)	—	—
WRITE-OFF OF INTEREST IN MINERAL CLAIMS	(715,920)	—	—	—
SHARE OF NET LOSS ON EQUITY INVESTMENT	(701,190)	—	—	—
LOSS BEFORE INCOME TAXES	(11,843,206)	(1,050,461)	(2,784,708)	(650,804)
CURRENT TAX (EXP) RECOVERY	900,713	(89,737)	608,415	317,285
NET LOSS FOR THE PERIOD	(10,942,493)	(1,140,198)	(2,176,293)	(333,519)
DEFICIT, BEGINNING PERIOD	—	(11,977,096)	(9,800,803)	(9,467,284)
DIVIDEND IN KIND (Note 11)	(2,174,801)	—	—	—
DEFICIT, END OF PERIOD	\$ (13,117,294)	\$ (13,117,294)	\$ (11,977,096)	\$ (9,800,803)
LOSS PER SHARE		\$ (0.02)	\$ (0.05)	\$ (0.01)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

ASIA PACIFIC RESOURCES LTD. (A development stage enterprise)

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(expressed in Canadian dollars)

	Cumulative from inception to February 29 1997	Year ended February 28 1997	Year ended February 29 1996	Year ended February 28 1995
OPERATING ACTIVITIES				
Net loss for the period	\$ (10,942,493)	\$ (1,140,198) / \$	(2,176,293)	\$ (333,519)
Items not involving cash				
Amortization	93,249	42,755	8,548	7,088
Loss (gain) on sale of investments	1,806,532	—	2,045,402	(41,048)
Write-down of investments	4,380,918	—	—	—
Write-down of interest in mineral claims	715,920	—	—	—
Share of net loss on equity investment	701,190	—	—	—
	(3,244,684)	(1,097,443)	(122,343)	(367,479)
Change in non-cash operating working capital items	(342,459)	(200,910)	(502,993)	(836,683)
	(3,587,143)	(1,298,353)	(625,336)	(1,204,162)
FINANCING ACTIVITIES				
Issue of share capital	52,491,776	10,023,430	24,788,545	1,575,000
Dividend in kind (Note 11)	(2,174,801)	—	—	—
	50,316,975	10,023,430	24,788,545	1,575,000
INVESTING ACTIVITIES				
Purchase of investments	(12,077,910)	—	(1,868,085)	(313,574)
Proceeds on sale of Investments	3,880,897	—	977,181	159,902
Disposal of investment through dividend in kind (Note 11)	1,308,373	—	—	—
Purchase of capital assets	(395,780)	(307,129)	(16,305)	(8,722)
Investment in potash Concession	(11,911,416)	(4,746,684)	(2,358,875)	(3,484,324)
Mineral claim expenditures	(715,920)	—	—	—
	(19,911,756)	(5,053,813)	(3,266,084)	(3,646,718)
NET CASH INFLOW (OUTFLOW)	26,818,076	3,671,264	20,897,125	(3,275,880)
CASH POSITION BEGINNING OF PERIOD	—	23,146,812	2,249,687	5,525,567
CASH POSITION, END OF PERIOD \$	26,818,076	\$ 26,818,076	\$ 23,146,812	\$ 2,249,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ASIA PACIFIC RESOURCES LTD. (A development stage enterprise)

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February 28, 1997
(expressed in Canadian dollars)

1. NATURE OF OPERATIONS

The Company, incorporated on January 26, 1986, is a development stage enterprise in the process of financing certain exploration and development expenditures with respect to its potash concession in northeastern Thailand (Note 4). The recoverability of the Company's expenditures on the potash concession is dependent upon the ability of the Company to obtain necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounting principles also used differ in some respects from those in the United States as outlined in Note 13.

Specific policies are as follows:

(a) Investment in Asia Pacific Potash Corporation

The Company accounts for its 62.5% investment in Asia Pacific Potash Corporation ("APPC") using the proportionate consolidation method on the basis that it exercises joint control over the affairs of APPC. Under this method the Company's pro rata share of each of the assets, liabilities, revenues and expenses of APPC are combined on a line-by-line basis with similar items in the Company's financial statements.

(b) Capital assets

Capital assets are recorded at cost and are amortized using the declining-balance method over the estimated useful life, using annual rates as follows:

Furniture and fixtures	20%
Exploration equipment	20%
Vehicles	20%
Leasehold improvements	20%
Computer equipment	30%

(c) Foreign exchange

The accounts of the Company's investment have been translated into Canadian dollars using the temporal method. Under this method monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Other balance sheet items, revenues and expenses are translated at the rates prevailing on the respective transaction dates.

(d) Potash concession

The Company capitalizes all direct exploration and development expenditures until commercial production commences or the investment is abandoned, at which time the costs will be either amortized on a unit-of-production basis or fully charged to operations. Provision will be made, where considered necessary, for permanent declines in the value of the property.

3. CAPITAL ASSETS

			1997	1996
	Cost	Accumulated Amortization and Depreciation	Net Book Value	Net Book Value
Furniture and fixtures	\$ 277,426	\$ 89,151	\$188,275	\$ 28,114
Exploration equipment	56,912	15,162	41,750	10,043
Vehicles	43,287	21,842	21,445	-
Leasehold improvements	22,160	4,341	17,819	-
Computer equipment	48,866	15,624	33,242	-
	<u>\$ 448,651</u>	<u>\$146,120</u>	<u>\$ 302,531</u>	<u>\$ 38,157</u>

4. INVESTMENT IN POTASH CONCESSION

The Company has a 62.5% interest in Asia Pacific Potash Corporation ("APPC"), a company which holds a potash concession situated in Udon Thani in northeastern Thailand. The remaining interests in APPC are held as to 27.5% by Metro Resources Company Ltd. ("Metro") and 10% by the Government of Thailand. Under the terms of the shareholders' agreement, certain strategic, operating and financing decisions require the approval of each shareholder.

The exploration and development expenditures of APPC are currently being funded as to 30.56% by Metro and 69.44% by the Company. The Government of Thailand is to reimburse its 10% share of such expenditures out of its share of the net profits of APPC, once commercial production has commenced.

During the year ended February 28, 1997 the Company's share of exploration and development expenditures amounted to \$4,746,684 (1996 - \$2,358,875; 1995 - \$3,484,324).

The financial statements include the following assets, liabilities, revenues and expenditures of APPC which have been recorded on a proportionate consolidation basis:

	1997	1996
Current assets	\$ 1,692,994	\$ 510,941
Capital assets	225,098	122,871
Investment in potash concession	11,911,416	7,164,732
Current liabilities	(449,081)	(870,820)
Net equity	13,380,427	6,927,724
Revenues	25,181	-
Expenses	98,875	-
Net loss for the year	(73,691)	-
Cash flows from operating activities	(811,951)	-
Cash flows from investing activities	(4,746,684)	(2,088,466)

5. CHANGE IN ACCOUNTING POLICY

During the year the Company determined that it exercises joint control over its 62.5% investment in Asia Pacific Potash Corporation and as a result changed its accounting policy to record its interest on the proportionate consolidation basis. Previously the Company had consolidated this investment. This change was applied retroactively with the effect that net assets and non-controlling interest as at February 29, 1996 were each reduced by \$1,758,286.

6. SHARE CAPITAL

(a) During the year ended February 29, 1996, the Company passed a Special Resolution to increase its authorized share capital from 50,000,000 to 200,000,000 common shares without par value and during the year ended February 28, 1997 passed a Special Resolution to increase its authorized share capital to 2,000,000,000 common shares without par value.

(b) Details of share capital since inception at January 26, 1986 to February 29, 1997 are as follows:

	Number of shares	Amount
Issued for cash on incorporation	1,350,000	\$ 157,500
Balance at February 28, 1987	1,350,000	157,500
Issued for cash on private placement	140,000	70,000
Issued for cash on public offering	350,000	157,500
Issued for property	50,000	74,500
Issued pursuant to flow through agreements	279,999	254,301
Balance at February 28, 1988	2,169,999	713,801
Issued for cash on private placement	7,277,777	3,525,000
Issued for cash on exercise of warrants	5,500,000	2,200,000
Issued pursuant to flow through agreements	1	-
Balance at February 28, 1989	14,947,777	6,438,801
Issued for cash on private placement	5,000,000	1,500,000
Balance at February 28, 1990	19,947,777	7,938,801
Issued for cash on private placement	3,400,000	510,000
Balance at February 28, 1991 and 1992	23,347,777	8,448,801
Issued for cash on private placement	1,000,000	350,000
Issued for cash on exercise of options	430,000	86,000
Issued for cash on exercise of warrants	3,400,000	595,000
Balance at February 28, 1993	28,177,777	9,479,801
Issued for cash on private placement	4,750,000	6,600,000
Issued as finder's fee on private placement	50,000	25,000
Balance at February 28, 1994	32,977,777	16,104,801
Issued for cash on exercise of warrants	875,000	1,575,000
Balance at February 28, 1995	33,852,777	17,679,801
Issued for cash on exercise of stock options	2,234,200	1,030,045
Issued for cash on private placement	6,000,000	14,742,000
Issued for cash on exercise of warrants	3,235,000	9,016,500
Balance at February 29, 1996	45,321,977	42,468,346
Issued for cash on exercise of stock options	1,267,300	3,627,430
Issued for cash on exercise of warrants	1,640,000	6,396,000
Balance at February 28, 1997	48,229,277	\$ 52,491,776

(c) From time to time, the Company grants incentive stock options to officers, directors and employees to purchase common shares of the Company at market related prices.

Information regarding the Company's stock options for the three year period ended February 29, 1996 is as follows:

	Number of common shares	Exercise price per share		
Outstanding at February 28, 1994	2,310,000	\$0.15	-	\$1.60
Granted	120,000	2.00	-	2.60
Outstanding at February 28, 1995	2,430,000	0.15	-	2.60
Granted	2,645,000	3.00	-	8.25
Exercised	(2,234,200)	0.15	-	4.55
Outstanding at February 29, 1996	2,840,800	1.60	-	8.25
Granted	2,035,000	7.35	-	10.41
Cancelled	(885,000)	8.25	-	10.41
Exercised	(1,267,300)	1.60	-	7.00
Outstanding at February 28, 1997	2,723,500	\$2.00	-	\$7.75

(d) As at February 28, 1997, the Company's stock options outstanding were as follows:

Number of common shares	Exercise price per share	Expiry date
580,000	\$3.00	April 28, 1999
1,720,000	\$7.35	February 28, 2002
175,500	\$4.55	October 27, 2000
20,000	\$7.75	January 23, 1999
60,000	\$2.00	March 24, 1999
18,000	\$7.00	December 15, 2000
150,000	\$6.37	December 4, 1998
2,723,500		

(e) During the year ended February 28, 1997, the Company issued 1,000,000 share warrants exercisable at \$8.00 per share until September 7, 1997 pursuant to an agreement with a third party to provide the Company with financial advisory services. These warrants are still outstanding at February 28, 1997.

(f) Shareholder rights plan

On July 17, 1996, the Company adopted a shareholder rights plan (the "Plan") and issued one common share purchase right for each common share outstanding. Generally, if any person or group makes a take-over bid other than a bid permitted under the Plan (a "Permitted Bid") or acquires 20% or more of the Company's outstanding common shares without complying with the Plan, the Plan will entitle the holders of share purchase rights to purchase common shares of the Company at 50% of the prevailing market price. A take-over bid for the Company can avoid the dilutive effects of the share purchase rights and therefore become a Permitted Bid if it complies with certain specified provisions in the Plan.

7. INCOME TAXES

The Company's actual income tax (expense) recovery differs from the income tax (expense) recovery which would result from applying the statutory tax rate to loss before income taxes as a result of the effect of not recording the potential tax recovery on losses, corporation capital taxes and other non-taxable items.

The Company has non-capital losses of approximately \$1,400,000 which may be used to offset future taxable income in Canada and which will commence to expire in the year 2003. In addition, the Company has net capital losses in Canada of approximately \$500,000 which may be used to offset future taxable capital gains.

8. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements include:

- (a) salaries and automobile allowances of \$396,400 (1996 - \$219,750; 1995 - \$113,393) for three directors of which \$Nil (1996 - \$13,729; 1995 - \$Nil) is included in prepaid expenses.
- (b) consulting fees of \$155,509 (1996 - \$119,703; 1995 - \$Nil) paid to companies controlled by outside directors.
- (c) accounts receivable includes \$541,720 (1996 - \$Nil) owing from a shareholder of APPC.

9. COMMITMENTS

The Company has the following future minimum payments in respect of lease commitments for office space:

1998	\$ 47,903
1999	47,903
2000	47,903
2001	23,951

10. SEGMENTED INFORMATION

The Company's operations consist of the exploration and development of the Udon Thani potash concession in north-eastern Thailand. Details of revenues, expenses and identifiable assets in Thailand are summarized in Note 4.

11. DIVIDEND IN KIND

During the year ended February 28, 1994, the Company paid a dividend in kind to each shareholder of the Company representing one share of Canadian Crew Energy Corporation ("KNC") at a book value of \$0.705 per share for each fifteen shares of the Company held on June 15, 1993. A total of 1,856,944 shares were distributed. This transaction gave rise to a taxable gain based on the market value of KNC shares of \$3,353,187 and resulted in a tax liability of \$866,428 after taking into account all of the Company's remaining tax loss carry-forwards at that date. The dividend is shown inclusive of the tax liability.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Company's cash, accounts receivable, due from affiliated companies, accounts payable and accrued liabilities at February 28, 1997 and February 29, 1996 are estimated to approximate carrying value due to the immediate of short-term maturity of these financial instruments.

13. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which, in the case of the Company, differ in some respects from U.S. GAAP. The material differences between Canadian and U.S. GAAP are summarized below:

(a) Investment in APPC

US GAAP requires investments in incorporated joint ventures to be accounted for under the equity method, while under Canadian GAAP, the accounts of incorporated investees subject to joint control are proportionately consolidated. However, under rules promulgated by the Securities and Exchange Commission, a foreign registrant may, subject to the provision of additional information, continue to follow proportionate consolidation for purposes of registration and other filings, notwithstanding the departure from U.S. GAAP. Consequently the balance sheets have not been adjusted to restate the accounting under U.S. GAAP and additional information concerning the Company's investment in APPC is presented in Note 4.

(b) Dividend in kind

Under U.S. GAAP, dividends in kind, consisting of investments previously accounted for using the equity method, are recorded at book value and any related tax expense is included in operations. Under Canadian GAAP, dividends in kind are recorded at book value plus any related tax liabilities.

	Cumulative from inception to February 28 1997	Year ended February 28 1997	Year ended February 29 1996	Year ended February 28 1995
Net (loss) Canadian GAAP	\$ (10,942,493)	\$ (1,140,198)	\$ (2,176,293)	\$ (333,519)
Adjustment to income tax expense	(866,428)	-	-	-
Net (loss) U.S. GAAP	\$ (11,808,921)	\$ (1,140,198)	\$ (2,176,293)	\$ (333,519)
Loss per share U.S. GAAP		\$ (0.02)	\$ (0.05)	\$ (0.01)

As a result of the foregoing, the dividend in kind in the year ended February 28, 1994 would have been decreased under U.S. GAAP by \$866,428. However, there would have been no change in the deficit at the end of that year.

(c) Statement of cash flows

Under U.S. GAAP, presentation of a statement of cash flows is required, which reflects only cash transactions affecting financing and investing activities. Under Canadian GAAP, disclosure of non-cash financing and investing activities is also required in the statement of changes in financial position. The following transactions represent adjustments to the statements of cash flows which would be required under U.S. GAAP.

	Cumulative from inception to February 28 1997	Year ended February 28 1997	Year ended February 29 1996	Year ended February 28 1995
Operating activities				
Change in non-cash operating working capital item	\$ (866,428)	\$ -	\$ -	\$ -
Financing activities				
Issue of share capital	(99,500)	-	-	-
Finder's fee	25,000	-	-	-
Dividend paid	2,174,801	-	-	-
Investing activities				
Expenditures for mineral claims	74,500	-	-	-
Disposal of investment through dividend in kind	(1,308,373)	-	-	-

(d) Income taxes

Under U.S. GAAP, Statement of Financial Accounting Standard No. 109 requires that a deferred tax amount be recognized for loss carry-forwards. Although the Company has tax loss carry-forwards in various jurisdictions, due to uncertainty of utilization, the deferred tax assets amounts would have been completely offset in these financial statements by a valuation allowance.

(e) Loss per share

Under U.S. GAAP, the loss per share is calculated using the weighted average number of shares and their equivalents outstanding during each year using the "treasury stock method" for stock options and warrants outstanding. Since the effect of applying the "treasury stock method" is anti-dilutive, the loss per share under U.S. GAAP is not different from the loss per share under Canadian GAAP.

(f) Impact of new U.S. reporting standards

In February 1997, the Financial Accounting Standards Board in the U.S. issued SFAS No. 128 "Earnings per Share" which is effective for years ending after December 15, 1997 (fiscal 1998 for the Company). This statement replaces the presentation of primary earnings per share with a presentation of basic earnings per share ("EPS"). Basic EPS excludes the dilution effect of common stock equivalents previously included in primary EPS and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. The calculation of diluted EPS will not change under SFAS No. 128.

The adoption of SFAS No. 128 by the Company, will not materially change the amounts disclosed as basic EPS.

14. SUBSEQUENT EVENT

Subsequent to February 28, 1997, the Company issued 57,000 shares for cash proceeds of \$259,350 on the exercise of outstanding stock options.



Gerald D. Wright -
Executive Chairman
and Director

Gerald Wright is a Professional Engineer with experience in water resources and mining projects in Europe, Asia and North America. He holds a Doctorate of Engineering from Queen's University in Belfast and is presently a principal of the Crew Group of Companies, holding directorships in the public and private corporations which comprise the Group. Dr. Wright also serves as President and CEO of Asia Pacific Potash Corp.



Robert G. Connochie -
President,
CEO and Director

Robert Connochie has over 25 years experience in the international mining industry during which he participated in the development of several major projects. His most recent positions have included Chairman and President of Potash Company of America and Vice President, Corporate Development of Rio Algom Limited. He currently serves on a number of corporate boards.



John M. Darch -
Secretary and Director

John Darch has had an extensive career in commercial banking and financial management, both in the United Kingdom and Canada and has specialized in mining finance. He is presently a principal of the Crew Group of Companies, holding directorships in the public and private corporations which comprise the Group. Mr. Darch also serves as Executive Vice President of Asia Pacific Potash Corp.



Peter D. Barnes -
CFO and Director

Peter Barnes is a Chartered Accountant with over 15 years experience. Prior to 1992, he was with an international accounting firm in both England and Canada. Mr. Barnes then spent four years in a senior financial role with a multinational public company based in Vancouver.



Robert B. Anderson - Director

Robert Anderson graduated from the University of British Columbia in 1970. An Economic Geologist and Professional Geoscientist, Mr. Anderson has 27 years experience of resource evaluation of precious and base metal projects in Western Canada, Alaska and southeast Asia, as well as commodities such as coal and potash. Mr. Anderson serves as Project Director in Thailand.



Wayne H. Fallis - Director

Wayne Fallis has considerable experience in international shipping and trading. He is President and CEO of Global Enterprises Int'l Inc.. Global's activities in international shipping and trading span both Europe and the Pacific Rim. He is also a member of the board of private and public companies involved in the mining and fishing industries.



David Williamson - Director

David Williamson is a Mining Engineer who began his career in Sierra Leone and Malaysia. He has managed two of the world's largest tin mines and was Executive Director of the mining and metals research team at Shearson Lehman Hutton in London. He established his consultancy company (David Williamson Associates) in October, 1989.



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